About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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How EY’s Global Automotive Center can help your business
The global recession reset the automotive sector landscape. As the sector recovers, automotive companies across the value chain must focus on profitable and sustainable growth, financial and operational stability, investments in new technologies and seizing opportunities in high-growth markets. If you lead an automotive business, you need to anticipate trends, identify implications and make informed decisions that support your business goals. Our Global Automotive Center enables our worldwide network of more than 7,000 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. These insights, combined with our technical experience in every major global automotive market, will help you to accelerate strategies and improve performance. Whichever segment of the automotive sector you are in — from component suppliers to commercial or light vehicle manufacturers or retailers — we can provide the insights you need to succeed.

Acknowledgements
Special thanks to Luiz Fulquerido, Christopher Real and Chirag Agrawal for the analysis and compilation of this study.
What is shaping the Latin American light vehicle market?

The Latin America region is continuing its evolution into an established manufacturing hub with attractive free trade agreements and increased government incentives. Further, it is also characterized by a growing population with increased purchasing power, continued investment into infrastructure and the governments increasing focus on having in-house automotive production. The automotive industry in the region is expected to see a high growth over the medium term with the production of light vehicles (LVs) expected to grow at a CAGR of 6.88% over the next four years from 7.3 million to 9.6 million units by 2017. Sales are also expected to show a growth rate of 5.89% over the same four years.

Consequently, stakeholders across the Latin American LV market are likely to be significantly impacted by rapidly changing events across the ecosystem—from the operating and regulatory environments, competition, and distribution channels to the supply chain. To prepare for the years ahead, automakers, suppliers and dealerships across the Latin American LV market therefore need to ask themselves the following five questions and assess how well they are prepared to respond to evolving opportunities and challenges in the domain:

1. How will the demand for vehicles evolve?
2. How will products need to adapt?
3. How will business models need to adapt?
4. What are the supply or value chain issues and implications?
5. What are the new market dynamics?

In attempting to answer these questions, EY has identified five megatrends that will impact the operations, revenues, costs and profitability of participants in the Latin American LV market.

### Trendicators

**Demographics**

**405.5 million**

Combined population as of July 2013

**New vehicles**

6%

Expected LV sales CAGR 2013-17

**Value of the vehicle sold that is financed in Latin America**

20 Years behind US and European regulations

**Trade**

50+

Number of existing free trade agreements between Latin America and other markets

**64%**

Share of exports from Mexico into the US

**Investments**

**US$17.7 billion+**

Investments in regions (2007-16)

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**Sources:** CIA World Factbook, LMC Automotive, EY Analysis, ANFAVEA, ProMexico.

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**Key strategies for consideration of stakeholders**

**For new market dynamics**

- Creation and development of infrastructure
- Plan for new safety and environmental regulations and crash tests and recyclability
- Supply chain restructuring that OEMs are likely to undertake to increase resilience in their network

**For existing supply chain issues**

- Location of plants in relation to OEMs
- Develop logistics strategy to deliver components to OEMs and to comply with import/export regulations

**For operating environment**

- Encourage suppliers to invest and locate near OEM facilities
- Evaluate tax and customs duty efficiency of regional supply chain footprint

**For business models**

- Develop a strong and flexible import/export strategy
- Enterprise management systems that enable visibility across the lower tiers of your supply chain
- Analysis of market and client demands in order to maintain and grow contracts/relationships with existing OEMs and new entrants

**For value chain issues**

- Use low-cost locations in Latin America to supply regional and foreign markets
- Utilize fixed-cost locations in Latin America to supply regional and foreign markets

**For supply chain issues**

- Put in place a human capital strategy to hire and train workers
- Develop and maintain plan for annual negotiations with labor unions

**For strategy and risk planning**

- Strategy in place to deal with low defaults and turned-in vehicles
- Consider balancing services with selling vehicles
- Financing for those with lower or no credit

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**Economic and safety risks compel auto industry to better engage with regulators, invest in infrastructure and develop labor training programs.**

- Risks such as the lack of infrastructure in certain countries and the growing concern for environmental sustainability are driving players to work with local governments to take necessary measures in order to operate.
- The shortage of technically trained professionals, along with strong labor laws and union presence, is pushing OEMs and suppliers to ensure compliance with labor laws.

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**Industrial policies and local trade regulations, driven by economic priorities, are impacting regional production footprint, supply chain and localized R&D.**

- Import quotas and taxes are forcing OEMs and suppliers to adhere to government regulations and requirements.
- Incentives are driving industry players to invest in local R&D and engineering as well as creating and maintaining jobs for local workers.

**Growing middle class and first-time buyers demand small and mid-size vehicles necessitating automakers to review their pricing strategies and improve credit evaluation for financing.**

- Household income has been increasing due to better employment opportunities and improved economic conditions, leading to higher purchasing power.
- Consumers are financing a greater proportion of vehicle value, leading to an increase in auto loan default rates.

**Regulations play catch-up with other markets, while consumer demand and competition drive installation of safety, connectivity and fuel economy features.**

- Proposed fuel economy requirements as well as the introduction of minimum legal crash test standards are forcing OEMs and suppliers to focus on R&D and investments in technology and safety.
- Consumers are calling for comfort, convenience and safety features along with connectivity, telematics and vehicle tracking.

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**Inherent market potential and competition for share are driving investment in R&D, manufacturing capacity and supply chain.**

- Established OEMs are strengthening operations to utilize regional cost competitiveness and responding to new regulations.
- Small-scale players in the region and new OEM entrants are setting up, localizing and expanding their production capacity in the region to take advantage of local growth and export potential.

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*Defined as Mexico, Brazil, Colombia and Argentina for the purpose of this piece.*
The Latin America region is continuing its evolution into an established manufacturing and sales hub for the automotive industry, made attractive by free trade agreements and increased government incentives. Further, it is also characterized by a growing population with increased purchasing power, continued investment into infrastructure and the governments’ increasing focus on having in-house automotive production. The automotive industry in the region is expected to see a high growth over the medium term with the production of light vehicles (LVs) expected to grow at a CAGR of 6.88% over the next four years – from 7.3 million to 9.6 million units by 2017. Sales are also expected to show a growth rate of 5.89% over the same four years.

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**Key strategies for consideration of stakeholders**

1. **Operating environment**
   - Policy changes and local trade regulations, driven by economic priorities, are impacting regional production footprint, supply chain and localized R&D
   - Regulations play catch-up with other markets, while consumer demand and competition drive installation of safety, connectivity, and fuel economy features

2. **Working business models**
   - Developing a strong and flexible import/export strategy
   - Plan for changing tax and incentives landscape
   - Establish OEMs and/or suppliers to invest and locate near OEM facilities
   - Preparing for new regional and foreign market dynamics

3. **Supporting supply and value chain issues**
   - Propose an import strategy to reduce costs
   - Enterprise management systems that enable visibility across the lower tiers of the supply chain

4. **Improving market potential and competitiveness**
   - Growing middle class and first-time buyers demand small and mid-size vehicles necessitating automakers to review their pricing strategies and improve credit evaluation for financing
   - Inherent market potential and competition for share are driving investment in R&D, manufacturing capacity and supply chain

5. **Economic and safety risks compel auto industry to better engage with regulators, invest in infrastructure and develop labor training programs**
   - Risks such as the lack of infrastructure in certain countries and the growing concern for environmental sustainability are driving players to work with local governments to take necessary measures in order to operate.
   - The shortage of technically trained professionals, along with strong labor laws and union presence, is pushing OEMs and suppliers to ensure compliance with labor laws.

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